

The U.S. House of Representatives

Small Business Subcommittee

On Investigation & Oversight

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The Impact of Energy Policy on Small Business

The Oklahoma Independent Petroleum Association is the largest oil and gas association in Oklahoma and one of the largest state oil and gas associations in the country. Although some of the OIPA's more than 2000 members are large independents like Devon and Chesapeake the 50-plus, year-old association boasts hundreds of small producing companies with less than 10 employees. For the most part, independent producers spend more than 100 percent of their profits each year exploring for crude oil and natural gas. They are not big oil! They are defined as non-integrated companies that do not operate refineries or sell gasoline. Much like farmers and ranchers who sell their cattle and wheat at market prices, independents have no say in what price their products bring. They simply take what the market gives them.

Oklahoma's oil and gas fields remain strong relative to other states and rank third or fourth in natural gas production and fifth in crude oil production. Independents dominate the energy industry, drilling 90 percent of the new wells, producing 96 percent of the crude oil and 88 percent of the state's natural gas. Sadly, it is estimated that 70 percent of our state's natural gas is transported to other states, losing the value added that could be included in our state's economy.

Even more relative to Oklahoma's energy industry and the connection to small business are the marginal oil and gas wells. These low volume producers, also known as "stripper wells," are defined as producing less than 10 barrels of oil per day or 60 mcf of gas. Oklahoma has more than 73,000 marginal oil and gas wells. Marginal wells produce 29 percent of the U.S. domestic oil and 85 percent of the state's oil production. With more than 400,000 of these wells in the United States, they represent over 1 million barrels of oil per day.

It goes without saying; these independent producers are a major component of our state's economy. For the first time in history, more than \$1 billion was paid to the state in gross production taxes in 2006. When gross production taxes are combined with income taxes, ad valorem taxes, motor vehicle taxes and other miscellaneous taxes, the oil and gas industry accounts for more than 25 percent of all taxes paid to the state. Add to that a 2007 work force estimated at 76,297 workers with a total labor income of \$8.9 billion. The industry's wages are much higher than other state industries; paying an average \$97,420 annually, almost three times the average wages earned outside the industry.

But equally important to the jobs and taxes paid, are the philanthropic contributions made by these business owners and their employees. They are the same people who devote their time and resources to local charities, schools, civic clubs, churches, hospitals and museums. All you have to do is travel around this state and look at the names on the buildings at universities, museums, hospitals, etc. to see the imprint of the oil and gas sector.

I have spent this time defining the Oklahoma energy sector to make a point. The independent producer is inextricably linked to small business. And small business is critical to our state's economy! A recent survey completed by the Oklahoma Marginal Well Commission reported that approximately 50 percent of the respondents operated less than 10 wells.

With that in mind, I turn to the negative impact the U.S. government could have on small business. I'll do that by concentrating on two areas of grave concern; tax policy and regulatory burden.

The tax policy of oil and gas drilling and production activities have been the foundation of the independent producer's decision-making process for years. These age-old tax policies have recognized three essential elements of the business; the huge capital expenditures required to drill and equip wells, the high risk associated with exploration and production activities, and ultimate decline curve of the production.

In my opinion, the proposed tax policies proposed by the White House combined with the Cap-and-Trade bill passed by the U.S. House would be the largest "money grab" on small business in the history of our country. The proposed tax treatment is specifically designed to dramatically curtail the drilling and production of the independent oil and gas industry, thus thrusting a dagger in the heart of small business in America.

Repealing the expensing of intangible drilling costs, reducing or eliminating the deduction for depletion, and exempting passive losses for interest owners will have severe implications on the independent's capabilities for attracting sources of capital. The result would be immediate. Fewer wells will be drilled, production (especially marginal wells) will decrease at an alarming rate, consumer energy prices will escalate and dependence on hostile foreign countries for energy will grow dramatically. Any government policy that would cause increases in energy costs during a severe recession is bad policy and beyond comprehension.

H.R. 2454, also known as the Cap-and-Trade Bill, is one of the worst pieces of legislation to ever come out of the U.S. House. It is a perfect example of economic pain without environmental gain. The estimated cost by the EPA to consumers and energy producers is \$1-2.9 trillion by the year 2050. The goal to reduce Greenhouse gases 80 percent by 2050 is simply impossible, especially since most of the other top carbon-producing countries in the world will never participate in a meaningful reduction of emissions. Big government will become much larger and a "No Free Market" regime will be established as the government will dictate the number of emission allowances auctioned, the amount purchased by each entity, the stacks of bureaucratic red tape, and the monitoring required to prevent fraud and cheating.

The system is also designed to give big business another advantage over small business. As the large, publicly-held, international companies develop emissions trading departments, it will become just another "profit center" for large companies as they buy, sell and trade emissions while small companies are left in the dark unable to hire experts, establish trading activities or even have a good understanding of how to compete in this new world of emissions trading.

Finally, environmental and regulatory rules and regulations have become the "ball and chain" for the independent producer. And as the environmental movement sweeps across the country, there is a constant barrage of new bureaucracy facing our members year after year. One of the most difficult responsibility's of our association is to educate our members on issues like storm water, drilling permits, water permits, air quality, tribal authority, SPCC rules, the Endangered Species Act, FEMA, BLM, OSHA, CO2 sequestration, floodplains; and the list goes on and on! It is an exhausting and expensive process!

And the latest war mongering by the environmentalist is (again) the regulation of hydraulic fracturing. Although this issue has already been investigated at length by the EPA and found to be non-harmful to our water supplies, the oil and gas industry is again the target of more regulation.

As I stand here today, both as a former small business owner and now, representing hundreds of small business men and women who explore and produce the energy that has provided our country with the greatest quality of life on the planet, I am troubled and frustrated. I believe the independent producer is under attack like never before. And that means small business is under attack. Excessive taxation and extreme regulation is a sure recipe for the demise of small business and a path toward a socialistic society. We must educate the uneducated, encourage the oppressed, and stand firm on our convictions. Time will tell if we are up to challenge.

Thank you for courteous attention and the opportunity to share my views on this important subject!

